Fiscal Note 2011 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0240	**Title:**	Reduce business equipment property tax and reimburse local tax jurisdictions
Primary Sponsor:	Lake, Bob	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$13,263,915	$37,551,702	$35,169,958	$35,287,711
Revenue:				
General Fund	($2,283,975)	($7,018,936)	($6,718,276)	($6,867,173)
State Special Revenue	($182,615)	($542,396)	($563,085)	($584,621)
Net Impact-General Fund Balanc	($15,547,890)	($44,570,638)	($41,888,234)	($42,154,884)

Description of fiscal impact: This bill reduces the tax rate on class 8 property from 3% to 2% and increases the amount of class 8 property that is exempt from property tax from $20,000 to $100,000. Under the bill, all individuals or business entities get the first $100,000 in market value of class tax 8 property exempted. Under current law, only persons and business entities with $20,000 or less in class 8 property are eligible for an exemption. The bill provides an exemption from taxation for all items of personal property with a market value of less than $100. Reimbursement for lost revenue is provided for: local governments and tax increment financing districts (TIFs) through entitlement share payments; local school districts through block grants; and the university system through transfers from the general fund. These reimbursements are statutorily appropriated by this bill.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

Reduction in Taxable Value of Class 8 Property

1. This bill reduces the tax rate on class 8 property from 3% to 2%. The total taxable value of the class 8 property reflects the 2.87% effective tax rate due to abated taxable value for some class 8 properties in TY 2008. This rate is estimate to fall by one-third to 1.91% due to the reduction of the standard tax rate.

2. The bill also provides an exemption from taxation for the first $100,000 in market value of class 8 property for each individual taxpayer. This replaces the provision in current law which provides that the class 8 property of each individual taxpayer with a total class 8 property market value of $20,000 (threshold) or less is exempt from taxation.
3. The reduction in class 8 tax rate and the $100,000 exemption would begin with tax year 2010. The impact would start in FY 2010 for personal property not-liened to real property and in FY 2011 for all other property.
4. In tax year 2008 the statewide average consolidated mill levy for class 8 property was 515.93 mills. The average mill for county and other local governments was 414.93 (515.93 – 95.00- 6.00). In tax year 2008 local school taxes were collected with a statewide weighted average of 227.64 mills. Other local governing entities levied and average of 187.29 local mills.
5. To calculate revenue impact to local governments and schools the taxable value reduction of class 8 property needs to exclude the taxable value of property in TIF districts.
6. The following table illustrates the effects that the reduction in the tax rate and the change in exemption to a $100,000 would have had on tax year 2008 (FY 2009) market value, taxable value, and estimated tax revenues for the general fund (statewide 95 education mills), the university state special revenue fund (6 mills), tax increment financing districts (TIFs), county and other local government revenues.

HB 240: Change in Class 8 Taxable Value and Revenue due to Increased Exemption and Reduced Tax Rate, if Implemented in TY 2008

	Current Law	Proposed Law	Reduction
Number of Taxpayers	18,066	5,889	(12,177)
Impact of Change in Threshold			
Market Value	$5,685,495,953	$4,540,658,859	($1,144,837,094)
Taxable Value at 3% Tax rate(eff: 2.87%)	$163,140,404	$130,290,291	($32,850,113)
Impact of Change in Tax Rate			
Taxable Value at 2% tax Rate (eff: 1.91%)	$108,760,269	$86,860,194	($21,900,076)
Combined Effect on Taxes Collected			
Taxable Value	$163,140,404	$86,860,194	($76,280,210)
Taxable Value in TIFS	$14,036,395	$7,473,342	($6,563,053)
Taxable Value Net of TIFs	**$149,104,009**	**$79,386,852**	**($69,717,157)**
Statewide Mills			
Estimated 6 Mill Tax (includes TIF property)	$978,842	$521,161	($457,681)
Estimated 95 Mill Tax	$14,291,917	$7,609,389	($6,682,528)
Estimated Total Statewide Mills	**$15,270,759**	**$8,130,550**	**($7,140,209)**
Local mills			
Estimated Local School Tax (227.64 mills)	$33,942,037	$18,071,623	($15,870,414)
Estimated Local Government Tax (187.29 mills)	$27,925,690	$14,868,364	($13,057,326)
Estimated Total Local Mill Tax	**$61,867,726**	**$32,939,987**	**($28,927,740)**
Estimated TIFs tax (509.93 mills)	$7,157,579	$3,810,881	($3,346,698)
Total Tax	**$84,296,064**	**$44,881,418**	**($39,414,647)**

Personal property tax exemption

7. This bill provides an exemption from taxation for all items of personal property with a market value of less than $100. The exemption for all items of personal property with market value of less than $100 applies to personal property in all classes of property, including centrally assessed personal property in classes 5, 9, 12, 13, 14, 15, and 16. 15-1-101(1)(n), MCA states that "The term "personal property" includes everything that is the subject of ownership but that is not included within the meaning of the terms "real estate" and "improvements" and "intangible personal property" as that term is defined in 15-6-218, MCA."
8. These exemptions for centrally assessed companies could be quite large. However, accounting rules for large companies allow them to expense the purchase of certain items below a threshold value in the year of purchase. Based on past analysis, this exemption, as it applies to items of personal property in class 8 would have only a minimal impact. For purposes of this fiscal note, it is assumed that this exemption will have no fiscal impact.

Reduction in Class 12 Property Tax Rate

9. The tax year 2008 tax rate for class 12 (railroad and airline) property was 3.44%. The class 12 (railroad and airline property) tax rate under current law is the calculated annually as the blended rate composed of all the tax rates applied to commercial property.
10. Recalculating the tax rate with the reduced market and taxable values for class 8 would have caused the class 12 tax rate to decrease to 2.95% in TY 2008. No class 12 property is located within tax increment financing districts. Therefore, the impact of the class 12 tax rate change would be limited to state and local government and education tax revenue.
11. In tax year 2008 the statewide average consolidated mill levy for class 12 property was 508.59 mills. The class 12 average mill levies for county and other local governments was 407.59 (508.59 – 95.00- 6.00). In tax year 2008 local school taxes made up 56.82% of local mill taxes assessed on class 12 property. Other local governing entities made up the remaining 43.18% of local mill taxes.
12. The following table illustrates the effects that the reduction in the tax rate would have had on tax year 2008 (FY 2009) market value, taxable value, and estimated tax revenues for the general fund (statewide 95 education mills), the university state special revenue fund (6 mills), county and other local government revenues.

HB 240: Change in Tax Year 2008 Railroad and Airline Property (Class 12)
Taxable Value and Revenue due to the Reduction in the Tax Rate

	Current Law	Proposed Law	Reduction
Total Market Value	$1,266,493,553	$1,266,493,553	
Tax rate	3.44%	2.95%	
Total Taxable Value	$43,567,378	$37,361,560	($6,205,818)
Statewide Mills			
Estimated 95 Mill Tax	$4,138,901	$3,549,348	($589,553)
Estimated 6 Mill Tax	$261,404	$224,169	($37,235)
Estimated Total Statewide Mills	**$4,400,305**	**$3,773,517**	**($626,788)**
Estimated Local Tax			
Estimated Local School Tax Mills (231.60 mills)	$9,917,678	$8,504,985	($1,412,693)
Estimated Local Government Tax (176 mills)	$8,159,734	$6,997,447	($1,162,288)
Estimated Total Local Mill Tax	**$17,757,628**	**$15,228,199**	**($2,529,429)**
Total Tax	$22,157,933	$19,001,716	**($3,156,217)**

Reduction in Railroad Car Tax collections

13. Property of railroad car companies (companies other than railroads that own railroad cars) is also taxed at the class 12 property tax rate. All property tax revenue from these companies goes to the state general fund. In tax year 2008, the market value for these companies was $108,406,430. Taxable value was $3,729,181 ($108,406,430 x 3.44%). The mill levy applied to this taxable value was 524.79 (statewide average mill levy for commercial property for the previous tax year). Taxes levied on this property were $1,957,037 ($3,729,181 x 524.79 / 1,000). This bill would reduce tax year 2008 taxable value to $3,197,990, a reduction of $531,191 ($3,729,181 - $3,197,990). This would have reduced tax year 2008 (FY 2009) state general fund revenues from these companies to $1,678,273, a reduction of $278,764 ($1,957,037 - $1,678,273).

Business Tax Revenue Increase

14. With lower property taxes, businesses will have lower property tax expenses to deduct in calculating taxable net revenue. This bill would reduce the property taxes businesses pay by:
15. Corporations that do business in Montana and other states are required to report their Montana property on their corporation license tax returns. Of this property, 66.65% was reported by corporations that had positive taxable income. It is assumed that the same proportion of total business property is owned by businesses with positive net income.
16. Each calendar year, the reduction in business expenses is half of the reduction in property tax for profitable businesses for the same numbered fiscal year plus half of the reduction for the next fiscal year.
17. The corporation license tax rate is 6.75%. It is assumed that the average marginal tax rate on business income reported on individual income tax returns is also 6.75%.
18. Businesses frequently use the option for an extended deadline for filing tax returns. Because of this, the changes in tax liability will be reported on tax returns filed over the course of the following calendar year, with half of the change coming in the fiscal year including the last half of the tax year and half coming in the next fiscal year. The result is presented in the following table:

HB 240: Estimated Business Tax Revenue Increase

Property Tax Reduction	**TY 2010**	**TY 2011**	**TY 2012**	**TY 2013**
State	(5,829,020)	(8,971,227)	(9,302,257)	(9,646,951)
Local Government	(12,997,735)	(15,870,836)	(16,473,159)	(17,100,178)
Schools	(15,080,861)	(17,855,822)	(18,587,911)	(20,067,139)
TIFs	(87,851)	(251,341)	(405,722)	(242,231)
Reduction in Property Tax	($33,995,467)	($42,949,226)	($44,769,048)	($47,056,499)
Corp Tax Collections	$764,707	$1,730,823	$1,973,168	$2,065,558
Fiscal Year Adjustment	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Estimated Increase in Corporation Tax	**$382,353**	**$1,247,765**	**$1,851,995**	**$2,019,363**

Summary of State Tax Revenue Reduction

19. The tax revenue changes summarized in assumptions 6, 12, and 13 are projected (in assumption 20 below) from the TY 2008 estimates based on the HJR 2 and OBPP growth estimates for each property type:

HJR 2 and OBPP Growth Rates for Property Affected by HB 240

Property Type	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Class 8	4.97%	4.97%	4.10%	4.10%
Class 12	0.76%	0.76%	0.00%	0.00%
Rail car tax (reduced class 12 rate)	5.96%	1.79%	0.50%	0.60%

20. These projections are further adjusted for the fiscal year receipt of property tax. Most property taxes are paid in November and May of the fiscal year following assessment. However, under the provisions of 15-16-119, MCA, owners of personal property that is not liened to real property pay property taxes 30-days

after assessments are mailed in March. This means that not liened to real property taxes are paid in the fiscal year they are billed. In TY 2008, class 8 property not liened to real property made up 38% of the total value of class 8 property.

HB 240: Net Reduction in State Tax Revenue

Revenue	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Class 8	$2,666,329	$7,367,487	$7,669,554	$7,984,006
Class 12		$598,548	$598,548	$598,548
Rail Car Tax		$300,666	$302,169	$303,982
Increase in Corp Tax	($382,353)	($1,247,765)	($1,851,995)	($2,019,363)
Balance	**$2,283,975**	**$7,018,936**	**$6,718,276**	**$6,867,173**
State Special Revenue				
Class 8	$182,615	$504,593	$525,282	$546,818
Class 12		$37,803	$37,803	$37,803
Total	**$182,615**	**$542,396**	**$563,085**	**$584,621**

Reimbursement to Local Jurisdictions for the loss of Class 8 and Class 12 Taxable Value

21. New section one of this bill provides each local taxing jurisdiction with a reimbursement equal to the difference between the amount it would have received under current law in TY 2010 and the amount it would receive if this bill is enacted.
22. Local governments and eligible TIFs (per 15-1-121, MCA) would receive reimbursement for the reduction in class 8 and class 12 property tax revenue as part of entitlement share payments.
23. The bill in section amends 15-10-420, MCA to restrict local jurisdictions from increasing mill levies for the loss of taxable value due to legislative action of that loss is reimbursed under 15-1-121(6).
24. Local School Districts would be reimbursed through school district block grants under 20-9-630. MCA as amended) program and allowed to float mills to compensate each fund.
25. The university state special revenue fund is to be reimbursed for the reduction in property tax revenue from class 8 property and class 12 property.
26. The bill provides for reimbursements for class 8 revenue losses be calculated separately for personal property not-liened to real property that occur in FY 2010 (38%).
27. All reimbursements to counties, other local governing entities, schools, and the university state special revenue fund resulting from this bill through statutory appropriations from the state general fund.
28. Based on preceding calculations, the following table shows the reimbursement due to the reduction in taxable value in class 8 and class 12 in TY 2010.

HB 240: Reimbursement to Local Governments and Schools for Loss of Class 8 and Class 12 Taxable Value

Reimbursement Jurisdiction	TY 2008	TY 2010 (Base)	FY 2010	FY 2011	FY 2012	FY 2013
Local Governments						
Class 8 Property	$13,057,326	$13,710,193	$5,209,873	$13,710,193	$13,710,193	$13,710,193
Class 12 property	$1,162,288	$1,171,121		$1,171,121	$1,171,121	$1,171,121
Total			**$5,209,873**	**$14,881,314**	**$14,881,314**	**$14,881,314**
School Districts						
Class 8 Property	$15,870,414	$16,663,934	$6,332,295	$16,663,934	$16,790,580	$16,918,189
Class 12 property	$1,412,693	$1,423,429		$1,423,429	$1,434,247	$1,445,147
Total			**$6,332,295**	**$18,087,363**	**$18,224,827**	**$18,363,336**
The University System						
Class 8 Property	$457,681	$480,565	$182,615	$480,565	$480,565	$480,565
Class 12 property	$37,235	$40,065		$40,065	$40,065	$40,065
Total			**$182,615**	**$520,630**	**$520,630**	**$520,630**
Tax Increment Districts						
Class 8 Property	$3,346,698	$3,514,033	$1,335,332	$3,514,033	$3,514,033	$3,514,033
Class 12 property	$0					
Total			**$1,335,332**	**$3,514,033**	**$3,514,033**	**$3,514,033**
Total HB 240 Reimbursements			**$13,060,115**	**$36,482,710**	**$36,620,174**	**$36,758,682**

Office of Public Instruction Fiscal Impact on Expenditures

29. The decrease in property tax values due to exemption in not liened to real property in FY 2010 does not have a Guaranteed Tax Base Aid (GTB) effect on K-12 schools.
30. The reimbursement payments to be made to schools June 15, 2010, approximately $5.7 million, will equal the amount of funding not available to schools in FY 2010 due to the impact of HB 240 and the effects of the class 8 exemptions on not liened to real property taxes collected in April 2010.
31. Section 1(3)(b) allows that the office of public instruction shall distribute the reimbursement amount for FY 2010 in the same proportion as the current block grant distribution. This distribution would not equal the property tax loss by district.
32. Property tax values will decrease by $167.6 million in FY 2011 for school districts. There will be a one-year guaranteed tax base aid (GTB) cost to the state general fund of $2.3 million in FY 2011. The guaranteed level is determined by the prior year taxable values applied against current year taxable values. The guaranteed level in FY 2010 will apply to the lower taxable values in FY 2011 and cause increased state contribution as districts levy more mills to compensate for the decrease in taxable value. There would be a slight decrease to GTB payments in FY 2012 and FY 2013 of about $100,000 each year.
33. The one-time reimbursements according to HB 240 total $4.7 million for BASE levy lost and $6.6 million for OverBASE levy loss totaling an $11.3 million reimbursement to be paid to districts through ongoing block grant reimbursement beginning in FY 2011. The reimbursements grow in subsequent years by 0.76%.
34. County school levies will be reimbursed for the loss in property tax in FY 2011. In FY 2012 and beyond the lower overall level of taxable values will not have a significant impact in statewide GTB costs.

35. Other school district budgeted funds will have a loss of about $4.8 million in FY 2011 which will be reimbursed throught the HB 124 block grant distribution described in item #32 above. These funds have no GTB associated with them. However, HB 240 reimbursement for FY 2011 pursuant to 20-9-630(2) does not compensate each fund at the same level as the levy revenue loss.
36. Countywide retirement GTB will increase $0.73 million based on a historical average of 28% of the costs paid by the state and FY 2009 county levies equal to $65.1 million (4.019% decrease in property tax value times $65.1 million local levies times 28% paid by the state).
37. The bill does not specify that counties must deposit the county reimbursement into the retirement fund, so this fiscal note assumes the county would not deposit reimbursements in the retirement fund. Therefore there would not be a GTB impact at the county level.
38. HB 240 changes the appropriation of the HB 124 block grants to be statutorily appropriated. HB 2 appropriations would need to be decreased to adjust for the appropriation change.

<u>Department of Revenue Administrative Expenses</u>

39. The department of revenue estimates that a total of 4.00 additional FTE will be required to administer the provisions of this bill.
40. The property assessment division will require 3.00 additional FTE (pay band 7) to conduct field audits and other analyses to ensure that class 8 property is correctly identified to ensure that the $100,000 exemption is correctly applied, and that the value of all exemptions is correctly allocated to local governments and schools.
41. The requirement that the reimbursements be separately calculated for personal property liened to real property and personal property not liened to real property also increases the workload. DOR estimates that 1.00 FTE will be required jointly by the Business Tax and Valuation Bureau and the Tax Policy and Research Bureau for FY 2010 to ensure the $100,000 exemption is correctly applied to centrally assessed property, and that the value of exemptions is correctly allocated to local governments and schools for purposes of the calculation of reimbursements.
42. The Orion computer system will require enhancements in order to correctly allocate exempted amounts to local governments, tax increment financing districts, and schools. Estimated cost for these enhancements is $493,020 (2,988 programming hours x $165 / hour).
43. Estimated annual taxpayer education costs to ensure compliance are $15,200.
44. The bill provides for an appropriation from the general fund of $500,000 for the FY 2011 biennium to the department of revenue for administering of the class 8 property exemption provisions of this bill. This amount is not anticipated to be enough to cover the administrative costs of the bill.
45. This bill provides that counties can use the value of exempt class 8 property in calculations for county classification.
46. This bill provides that counties, other local governing entities, and schools can use the value of exempt class 8 property in calculation of debt limits.
47. The bill provides for the notification of this bill to tribal governments by the secretary of state.
48. This bill instructs that new section 1 be codified in Title 15, chapter 1, part 1, MCA. New section 1 relates to 15-1-121, MCA, which deals with entitlement share payments.
49. This bill is a saving clause stating that "[This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].".
50. The bill provides effective dates for the sections of this bill. Effective date for section three amending 15-1-121, MCA (entitlement share payments) is July 1, 2009. Effective date for section 11 amending 20-9-630, MCA (school block grant payments) is July 1, 2010. Effective date for the other sections of this bill is January 1, 2010.
51. The bill proposes that new section one (reimbursements for the loss of class 8 taxable value) and 20-9-630, MCA, (school block grants) are to be made statutory appropriations.

52. 17-1-508, MCA requires analysis of the statutory appropriation relative to the guidance in 17-1-508 (2), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines.

		YES	**NO**
a.	The fund or use requires an appropriation.	Yes	
b.	The money is not from a continuing, reliable, and estimable source.		No
c.	The use of the appropriation or the expenditure occurrence is not predictable and reliable.		No
d.	The authority does not exist elsewhere.	Yes	
e.	An alternative appropriation method is not available, practical, or effective.		No
f.	Other than for emergency purposes, it does not appropriate money from the state general fund.		No
g.	The money is dedicated for a specific use.	Yes	
h.	The legislature wishes the activity to be funded on a continual basis.	Yes	
i.	When feasible, an expenditure cap and sunset date are included.		No

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
Department of Revenue				
FTE	4.00	3.00	3.00	3.00
Expenditures:				
Personal Services	$176,648	$134,382	$134,382	$134,382
Operating Expenses	$45,984	$38,288	$38,288	$38,288
Equipment	$512,620	$0	$0	$0
Benefits	$60,281	$45,381	$45,381	$45,381
TOTAL Expenditures	$795,533	$218,051	$218,051	$218,051
Funding of Expenditures:				
General Fund (01)	$795,533	$218,051	$218,051	$218,051
Revenues:				
General Fund (01)	($2,283,975)	($7,018,936)	($6,718,276)	($6,867,173)
State Special Revenue (02)	($182,615)	($542,396)	($563,085)	($584,621)
TOTAL Revenues	($2,466,590)	($7,561,332)	($7,281,361)	($7,451,794)
Department of Adminstration				
Expenditures:				
Transfers:				
Local Governments	$5,209,873	$14,881,314	$14,881,314	$14,881,314
Office of Public Instruction:				
Local Assistance (General Fund)	$3,941,005	$11,289,978	$11,375,782	$11,462,238
Local Assistance (Other Funds)	$1,799,557	$4,812,337	$4,848,911	$4,885,762
Local Assistance (GTB)	$0	$2,315,359	($188,763)	($194,317)
University System	$182,615	$520,630	$520,630	$520,630
Tax Increment Districts	$1,335,332	$3,514,033	$3,514,033	$3,514,033
TOTAL Expenditures	$12,468,382	$37,333,651	$34,951,907	$35,069,660
Funding of Expenditures:				
General Fund (01)	$12,468,382	$37,333,651	$34,951,907	$35,069,660
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($15,547,890)	($44,570,638)	($41,888,234)	($42,154,884)
State Special Revenue (02)	($182,615)	($542,396)	($563,085)	($584,621)

Effect on County or Other Local Revenues or Expenditures:

1. Counties, TIFs, school districts and other local governing entities will be reimbursed for TY 2010 lost revenue. Eligible schools district would receive a change in their GTB payments. School districts will also be allowed to adjust their mill levies under Title 20, MCA. Local governments and TIFs would not be allowed to raise their mill levies to recover revenue loss due to Class 8 and Class 12 under the provisions

of this bill due to the reimbursements created by this bill. Over time the difference between the HB 240 payments and the estimated loss of class 8 and class 12 property tax revenue is anticipated to develop. The estimated margin between the HB 240 reimbursements and property tax revenue loss is presented for each type of jurisdiction in the following table:

HB 240:Net Impact on Local Government Revenue

Juristiction	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Local Governments				
Property Tax Reduction	($5,209,873)	($15,575,724)	($16,165,948)	($16,780,371)
HB 240 Reimbursements	$5,209,873	$14,881,314	$14,881,314	$14,881,314
Balance	**$0**	**($694,410)**	**($1,284,634)**	**($1,899,057)**
School Districts				
Property Tax Reduction	($6,332,295)	($18,931,378)	($19,648,760)	($20,395,555)
HB 240 Reimbursements	$6,332,295	$18,087,363	$18,224,827	$18,363,336
Guaranteed Tax Base Aid	$0	$2,315,359	($188,763)	($194,317)
Riembursements	$6,332,295	$20,402,722	$18,036,064	$18,169,019
Balance	**$0**	**$1,471,344**	**($1,612,696)**	**($2,226,537)**
Tax Increment Districts				
Class 8 Property	($1,335,332)	($3,689,734)	($3,841,013)	($3,998,495)
HB 240 Reimbursements	$1,335,332	$3,514,033	$3,514,033	$3,514,033
Balance	**$0**	**($175,702)**	**($326,981)**	**($484,462)**
Net Impact to Local Juristictions	**$0**	**$601,232**	**($3,224,311)**	**($4,610,056)**

<u>**Technical Notes:**</u>

Department of Revenue

1. The federal 4R Act of 1976 provides the railroads with special protection from discriminatory taxation. The property tax rate for class 12 property (railroads and airlines) a result of the 4R Act. The act allows railroads to bypass the traditional appeal process and take discrimination cases directly to the federal district court. States that have increased commercial property exemptions have faced legal challenges by the railroads with adverse consequences for state and local revenue.
2. Page 2 line 30 refers to tax increment financing districts as provided in 15-1-121(7) (b) the citation for TIFs is in 15-121-(6) (b).
3. Page 14 lines 6 and 7 refer to distributions made under section 1(2) (b) (reimbursements to local government). The distributions under 1(3) (b) (reimbursements to School districts) and 1(4) (b) (reimbursements to TIF districts) are not included.
4. Under section 2 of this bill, an additional 50% of all class 8 property may be reported for the classification of the counties. It may be that the intent is to report for classification purposes the amount of taxable value <u>loss</u> due to the change in the class 8 tax rate.

5. Under section 4 of the bill, DOR can require taxpayer identification numbers for individuals involved in pass through entities. The same authority is not granted to prevent for other taxpayers from seeking multiple exemptions.
6. In Section 9 of this bill limits on school funds are amended, class 8 property is added twice by the language of this bill, once while calculated in the total taxable value and again under (1)(a)(ii).
7. This bill applies to tax years beginning after December 31, 2009. Sections 1(2)(b), (3)(b), (4)(b), and (5)(b) (reimbursements for revenue losses from class 8 personal property not liened to real property) apply to fiscal year 2009 property tax reimbursement distributions. However, no revenue reductions will occur until FY 2010. Section three amending 15-1-121, MCA (entitlement share payments) applies starting in FY 2010. Section 11, amending 20-9-630, MCA (school district block grants applies to school fiscal years beginning after June 30, 2010.

Office of Public Instruction

8. Subsection (1) states that the department (DOR) shall <u>estimate</u> the difference for calendar year 2010 the difference between property tax collections under HB 240 and property tax collections under current law. The same subsection also states that this difference will be the reimbursable amount for each entity.
9. Section 11, Subsection (2), amends 20-9-630 school block grants to read "The total reimbursement distributions made pursuant to this subsection in a fiscal year must be <u>added to **all** other distributions to the school district…</u>. It is unclear what that statement means. Does it mean all other distribution in 20-9-630?

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*